

Message Text

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FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 055
INFO AMEMBASSY PARIS
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AMEMBASSY BONN
AMEMBASSY COPENHAGEN
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USEEC ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EGEN, EFIN, EI
SUBJECT: GOI RELEASES WHITE PAPER ON ECONOMY

1. SUMMARY AND COMMENT:

GOI RELEASED WHITE PAPER ON ECONOMIC AND SOCIAL DEVELOPMENT FOR
1977-80 ON EVENING OF JANUARY 12. NEWLY CREATED AND STILL
BEING ORGANIZED DEPARTMENT OF ECONOMIC PLANNING AND DEVELOPMENT
HAD LESS THAN TWO MONTHS TO PREPARE THE DOCUMENT, WHICH IS LESS
A SPECIFIC ACTION PLAN THAN AN ELABORATION OF THE PRE-ELECTION
MANIFESTO IDENTIFYING ECONOMIC OBJECTIVES AND PROVIDING GENERAL
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GUIDELINES FOR THEIR ACHIEVEMENT. THE BUDGET, WHICH WILL BE
ANNOUNCED FEBRUARY 1, A GREEN PAPER SLATED FOR MID-YEAR AND A
COMPREHENSIVE PLANNING PAPER TO BE PUBLISHED IN THE FALL
WILL FLESH OUT THE BARE BONES OF THIS PRELIMINARY STATEMENT.
THE PROGRAM AS OUTLINED APPEARS TO BE A TEXTBOOK
KEYNESIAN APPROACH -- SHORT RUN REGENERATION OF THE ECONOMY
AND FOSTERING OF JOB CREATION THROUGH A REFLATIONARY

FISCAL POLICY, WITH A MEDIUM TERM FOCUS ON THE ENCOURAGEMENT OF PRIVATE INVESTMENT, AND IN THE LONGER RUN THE PROMOTION OF ECONOMIC RESTRUCTURING WITH A HEAVY EMPHASIS ON PRIVATE SECTOR ACTIVITY. MINISTER OF ECONOMIC PLANNING AND DEVELOPMENT O'DONOGHUE HAS CHARACTERIZED THE PLAN AS A GAMBLE, AND IN TWO RESPECTS THE TERM MAY WELL APPLY. FIRST, THE 1978 BUDGET DEFICIT WILL RISE TO AN ESTIMATED 13 PERCENT OF GNP (FROM 11 PERCENT IN 1977), BUT THE GOVERNMENT ACKNOWLEDGES THAT THIS LEVEL CAN NOT BE SUSTAINED AND PROMISES A REDUCTION TO EIGHT PERCENT BY 1980. SECOND, THE GOVERNMENT HAS AMBITIOUS GOALS -- AN AVERAGE ANNUAL REAL GNP GROWTH OF SEVEN PERCENT FOR 1978-1980, A DECLINE IN UNEMPLOYMENT TO ABOUT SIX PERCENT BY 1980, AND A DROP IN INFLATION TO FIVE PERCENT BY 1979 IS RELYING HEAVILY ON THE DISCRETIONARY ASPECTS OF THE PROGRAM, I.E. ON THE ACCEPTANCE OF MODERATE INCOME INCREASES BY LABOR OVER THE NEXT TWO TO THREE YEARS AND ON THE WILLINGNESS AND ABILITY OF BUSINESS TO ACT ON THE INVESTMENT INCENTIVES PROVIDED. AN ADDITIONAL QUESTION MARK FOR THIS SMALL AND VERY OPEN ECONOMY IS THE ECONOMIC PROGRESS OF HER EIGHT EC PARTNERS DURING THIS SAME TIME FRAME. HIGHLIGHTS OF THE WHITE PAPER FOLLOW IN PARAS TWO THROUGH NINE. END SUMMARY.

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2. EMPLOYMENT - PRIME MINISTER LYNCH HAD ALREADY IDENTIFIED UNEMPLOYMENT AS THE NATION'S MOST SERIOUS PROBLEM, AND THE WHITE PAPER CONTINUES THIS THEME. UNFORTUNATELY, THE INADEQUACIES OF IRISH LABOR STATISTICS MAKE THE DETERMINATION OF A REASONABLY ACCURATE JOBLESS RATE A NEXT TO IMPOSSIBLE TASK. MINISTER FOR ECONOMIC PLANNING AND DEVELOPMENT O'DONOGHUE ESTIMATED THAT THE GOVERNMENT'S PROGRAM WOULD REDUCE THE "LIVE REGISTER" (A VERY ROUGH GAUGE OF UNEMPLOYMENT USING SOCIAL INSURANCE RECIPIENTS) FROM A LEVEL OF 107,000 IN MID-DECEMBER 1977 TO ABOUT 54,000 BY 1980; OR USING A DIFFERENT APPROACH, WOULD HALVE THE "REAL UNEMPLOYMENT RATE" (AS DEFINED BY O'DONOGHUE) TO SIX PERCENT OF THE LABOR FORCE BY 1980. THE OPPOSITION EXPRESSED GREAT SKEPTICISM ABOUT THE GOVERNMENT'S FIGURES ON JOB CREATION AND ITS LIMITED OFFICIAL USE

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PROJECTIONS FOR THE REDUCTION OF UNEMPLOYMENT. WHATEVER FIGURES ARE USED, IRELAND'S CHRONIC UNEMPLOYMENT POSES AN ENORMOUS CHALLENGE TO THE GOVERNMENT. THE GOAL OF CREATING AN ESTIMATED NET INCREASE OF 29,000 IN NON-AGRICULTURAL EMPLOYMENT ANNUALLY FROM MID-1977 THROUGH 1980 CAN ONLY BE REGARDED AS EXTREMELY AMBITIOUS. THE EXPLICIT PUBLICATION OF SUCH A HIGH TARGET, WITH ITS ATTENDANT POLITICAL RISK, REFLECTS THE GOVERNMENT'S SERIOUSNESS OF PURPOSE IN THIS CRITICAL AREA.

3. GNP - TO ACHIEVE ITS JOB CREATION GOALS THE GOVERNMENT AIMS AT A REAL GROWTH RATE OF SEVEN PERCENT FOR EACH OF THE NEXT THREE YEARS, I.E. THROUGH 1980. TOTAL INVESTMENT AND EXPORTS OF GOODS AND SERVICES WOULD RISE BY AN AVERAGE OF 12 PERCENT PER ANNUM DURING 1978-80, PRIVATE CONSUMPTION WOULD INCREASE BY AN AVERAGE SIX PERCENT, AND PUBLIC CONSUMPTION BY A MODERATE THREE PERCENT. A STIMULATIVE FISCAL POLICY IS TO FOSTER JOB CREATION AND DOMESTIC DEMAND IN THE SHORT RUN AND THE BUDGET DEFICIT IS ESTIMATED AT 13 PERCENT OF GNP THIS YEAR (UP FROM 11 PERCENT IN 1977). BY 1979, HOWEVER, THE GOVERNMENT WOULD BE REDUCING THE BUDGETARY DEFICIT AS A PERCENT OF GNP, AND BY 1980 THE PERCENTAGE WOULD DROP TO EIGHT PERCENT, A RELATIVELY MODEST FIGURE BY RECENT IRISH STANDARDS. THE MEDIUM AND LONGER RUN EMPHASIS ON THE PRIVATE SECTOR AS THE PRIMARY AGENT OF GNP GROWTH INJECTS A CRITICAL DISCRETIONARY ELEMENT. THE PROGRAM WILL OPERATE AS PLANNED ONLY IF PRIVATE BUSINESS IS ABLE AND WILLING TO PROCEED WITH VERY SUBSTANTIAL NEW INDUSTRIAL INVESTMENT, AND THIS ALSO MEANS A DEPENDENCE ON FOREIGN (ESPECIALLY US) INVESTORS, WHO HAVE PLAYED A MOST SIGNIFICANT ROLE IN INDUSTRIAL DEVELOPMENT IN RECENT YEARS. THE GOI WILL HAVE EVEN LESS CONTROL OVER ANOTHER

KEY FACTOR, DEMAND FOR IRISH EXPORTS. (EXPORTED GOODS
AND SERVICES EXCEEDED 50 PERCENT OF FNP IN 1977).
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EXPECTATIONS OF AN AVERAGE 12 PERCENT VOLUME INCREASE
IN EXPORTS FOR 1978-80 ARE OPTIMISTIC GIVEN
CURRENT ESTIMATES OF EC GROWTH PROSPECTS.

4. INCOMES POLICY - THHTE PAPER ONCE AGAIN STRESSES THE
NEED TO PRESERVE AND IMPROVE THE COMPETITIVENESS OF IRISH
PRODUCTS. THE SCENARIO CALLS FOR A REDUCTION OF THE
INFLATION RATE THIS YEAR TO SEVEN PERCENT, WITH A FURTHER
DROP TO FIVE PERCENT BY 1979. BUT THIS IS DEPENDENT UPON
A NON-INFLATIONARY INCOMES POLICY. GIVEN THE GOVERNMENT'S
INTENTION TO FOSTER PROFIT MARGINS SUFFICIENT TO STIMULATE
INVESTMENT THIS BOILS DOWN TO WAGE RESTRAINTS. THE GOI IS
CURRENTLY ENGAGED IN NEGOTIATIONS TO HOLD WAGE INCREASES
FOR 1978 TO FIVE PERCENT, AND HAS NOW ACKNOWLEDGED THAT
"MODERATION" IN WAGES WILL BE ESSENTIAL FOR TWO OR THREE
YEARS TO KEEP INFLATION UNDER CONTROL. LABOR'S RESPONSE
REMAINS UNCLEAR FOR 1978; EVEN MORE UNCERTAINTY SURROUNDS
1979 OR 1980.

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5. BALANCE OF PAYMENTS - THE BALANCE OF PAYMENTS POSES YET ANOTHER POSSIBLE CONSTRAINT ON IRISH ECONOMIC PROGRESS. THE WHITE PAPER FORESEES THE CURRENT ACCOUNT DEFICIT INCREASING FROM ABOUT 200 MILLION POUNDS IN 1977 (FOUR PERCENT OF FNP) TO OVER 500 MILLION POUNDS (6 PERCENT OF FNP) BY 1980. OFFICIALS BELIEVE THAT THE CURRENT HIGH LEVEL OF RESERVES AND INCREASED FOREIGN PRIVATE INVESTMENT INFLOWS SHOULD REDUCE THE NEED FOR OFFICIAL BORROWING TO MANAGEABLE PROPORTIONS. DEPENDENCE ON ENERGY IMPORTS ACCOUNTS FOR MUCH OF THE CURRENT ACCOUNT DEFICIT (IN 1977 THE NET OIL BILL WAS MORE THAN HALF OF THE 650 MILLION POUND TRADE DEFICIT). OPTIMUM DEVELOPMENT OF POTENTIAL INDIGENOUS ENERGY SOURCES IS HIGH ON THE GOVERNMENT'S LIST OF PRIORITIES, AS IS CONSIDERATION OF A NUCLEAR PLANT, BUT THESE WILL HAVE LIMITED OFFICIAL USE

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LITTLE IMPACT IN THE PERIOD TO 1980.

6. INDUSTRIAL SECTOR - THE PROMOTION OF INDUSTRIAL DEVELOPMENT IS ONE OF THE KEYSTONES OF THE GOVERNMENT'S PROGRAM. "APPROPRIATE INCENTIVES" WILL BE PROVIDED TO PROMOTE FOREIGN AND DOMESTIC PRIVATE INVESTMENT AND EXPORT EXPANSION. LOCAL INFRASTRUCTURE WILL BE IMPROVED, OVERSEAS SALES PROMOTION OF IRISH GOODS ENHANCED, AND A LOCAL BUY IRISH CAMPAIGN IS SOON TO BE INITIATED -- ALL AIMED AT FOSTERING A RAPID GROWTH IN THE INDUSTRIAL SECTOR. WITH RESPECT TO INDUSTRIAL RELATIONS THE WHITE PAPER STATES THAT "THE PROVISION OF EMPLOYMENT IS BEING SERIOUSLY THREATENED BY INDUSTRIAL DISPUTES", PARTICULARLY THE INCIDENCE OF UNOFFICIAL ACTIONS. A REVIEW GROUP ON INDUSTRIAL RELATIONS IS BEING SET UP TO CARRY OUT A COMPREHENSIVE REVIEW OF THE ENTIRE INDUSTRIAL RELATIONS SYSTEM.

7. AGRICULTURAL SECTOR - A 25 PERCENT GROWTH IN GROSS AGRICULTURAL OUTPUT IS FORECAST FOR 1977-80. A RATE WHICH THE WHITE PAPER OBSERVES IS FASTER THAN FOR ANY OTHER FOUR YEAR PERIOD IN THE PAST TWO DECADES. EMPHASIS WILL BE GIVEN TO THE DEVELOPMENT OF THE FOOD PROCESSING INDUSTRY.

8. TOURISM - THE GOVERNMENT AND SEMI-STATE BODIES WILL INTENSIFY THEIR MARKETING PROGRAMS TO GENERATE SUBSTANTIAL GROWTH IN THIS AREA, IMPORTANT BOTH AS AN EMPLOYER AND FOREIGN EXCHANGE EARNER. A NATIONAL SURVEY OF TOURIST

POTENTIAL IS TO BE CARRIED OUT. TOURISTS ARE EXPECTED
TO REACH 2.4 MILLION IN 1980 (UP 25 PERCENT FROM 1977)
AND EARNINGS TO BE UP 30 PERCENT IN REAL TERMS.

9. SOCIAL SERVICES - RESOURCES FOR ADVANCES IN SOCIAL
SERVICES "ARE LIKELY TO BE UNDER SEVERE STRAIN OVER THE
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NEXT FEW YEARS", AND "WILL HAVE TO BE CAREFULLY HUSBANDED".
THE GOVERNMENT HAS EMPHATICALLY GONE ON RECORD AS GIVING
FIRST PRIORITY TO EXPENDITURE DIRECTED AT JOB MAINTENANCE
AND CREATION IN THE "DIRECTLY PRODUCTIVE" SECTORS OF THE
ECONOMY. SECOND PRIORITY WILL GO TO PROVIDE THE
INFRASTRUCTURE NECESSARY TO ENCOURAGE AND SUPPORT PRODUCTIVE
INVESTMENT AND TO RELATED SERVICES IN THE PUBLIC SECTOR.

10. GREATER DETAIL ON THE GOVERNMENT'S PROGRAM, AT LEAST
FOR THIS YEAR, WILL BE AVAILABLE IN TWO WEEKS, WITH THE
ISSUANCE OF THE NATIONAL BUDGET. SHANNON

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TAGS: EGEN, EFIN, EI
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Type: TE
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